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INDEPENDENT AUDITORS' REPORT

The Board of Trustees
Missouri Department of Transportation and
Highway Patrol Employees' Retirement System

We have audited the accompanying statements of plan net assets of the Missouri Department of Transportation and Highway Patrol Employees' Retirement System (the System) as of June 30, 2010 and 2009, and the related statements of changes in plan net assets for the years then ended. These financial statements are the responsibility of the System's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with U.S. generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the plan net assets of the Missouri Department of Transportation and Highway Patrol Employees' Retirement System at June 30, 2010 and 2009, and the changes in plan net assets for the years then ended, in conformity with U.S. generally accepted accounting principles.

The management's discussion and analysis on pages 2 through 5 and the schedules of funding progress and employer contributions on pages 24 and 25 are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. The required supplementary information is the responsibility of management of the System. Limited procedures were applied by other auditors to the required supplemental information for the year ended June 30, 2005. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information, for the years ended June 30, 2010, 2009, 2008, 2007 and 2006. However, we did not audit the information and express no opinion on it.

Our audits were made for the purpose of forming an opinion on the financial statements taken as a whole. The supplementary information included on pages 26 through 28 is presented for purposes of additional analysis and is not a required part of the basic financial statements of the System. Such information has been subjected to the auditing procedures applied in the audits of the financial statements and, in our opinion, is fairly stated in all material respects in relation to the financial statements taken as a whole.

Williams-Keepers LLC

November 10, 2010

MISSOURI DEPARTMENT OF TRANSPORTATION AND HIGHWAY PATROL EMPLOYEES' RETIREMENT SYSTEM

MANAGEMENT'S DISCUSSION AND ANALYSIS

The management of the Missouri Department of Transportation and Highway Patrol Employees' Retirement System (the System, or MPERS) provides this discussion and analysis of the System's financial performance for the fiscal years ended June 30, 2010 and 2009. While this discussion is intended to summarize the financial status of MPERS, readers should consider this information in conjunction with the information that is furnished in the more detailed financial statements and corresponding notes.

DESCRIPTION OF BASIC FINANCIAL STATEMENTS

As required by the Governmental Accounting Standards Board (GASB) accounting standards, this financial report consists of *Management's Discussion and Analysis* (this section), the basic financial statements (including notes to the basic financial statements), and other required supplementary information.

Financial Statements report information about MPERS, using accounting methods similar to those used by private-sector companies, by using the economic resources measurement focus and accrual basis of accounting. These statements provide both long-term and short-term information about the System's overall financial status. These statements follow this *Management's Discussion and Analysis* section:

- The *Statement of Plan Net Assets* includes all the System's assets and liabilities, with the difference between the two reported as net assets.
- The *Statement of Changes in Plan Net Assets* accounts for all the current year's additions (income) and deductions (expenses), regardless of when cash is received or paid.

Notes to the Financial Statements are included following the financial statements. The notes to the financial statements provide additional information that is essential for a full understanding of the data provided in the financial statements.

Required Supplementary Information follows the notes and further supports the information in the financial statements.

ANALYSIS OF FINANCIAL POSITION AND RESULTS OF OPERATIONS

Overall, the financial position of MPERS improved by $91.6 million, reported as the "change in net assets." This is primarily a result of net appreciation in the fair value of investments for the year ended June 30, 2010. Even with this net increase in value in FY10, the funded status of the plan showed a decrease of 5.04%, due to the deferred recognition for actuarial purposes of the investment losses incurred in the two prior years.

The following schedules present summarized comparative data from the System's financial statements for the fiscal years ended June 30, 2010, 2009, and 2008. Following each schedule is a brief summary providing explanation and analyses of the major reasons for changes in the condensed financial statements.

Summarized Comparative Statements of Plan Net Assets

	As of June 30, 2010	As of June 30, 2009	As of June 30, 2008	% Change 2010/2009	% Change 2009/2008
Cash and Receivables	$90,675,162	$9,940,482	$39,325,100	812%	-75%
Investments	1,299,366,338	1,219,197,339	1,685,749,748	7%	-28%
Invested Securities Lending Collateral	44,655,544	53,502,879	61,380,123	-17%	-13%
Capital Assets	3,276,526	1,659,247	1,577,452	97%	5%
Other Assets	5,155	8,535	7,889	-40%	8%
Total Assets	$1,437,978,725	$1,284,308,482	$1,788,040,312	12%	-28%
Accounts Payable	78,491,744	8,299,374	7,889,473	846%	5%
OPEB Obligation	276,548	182,305	94,440	52%	93%
Securities Lending Collateral	45,986,723	54,692,943	61,380,123	-16%	-11%
Long-Term Debt/Payable	506,400	0	1,226	100%	-100%
Total Liabilities	$125,261,415	$63,174,622	$69,365,262	98%	-9%
Total Net Assets	**$1,312,717,310**	**$1,221,133,860**	**$1,718,675,050**	**7%**	**-29%**

The increase in cash and receivables is primarily attributable to higher investment sales receivables as of June 30, 2010. Some fluctuations in this area are normal, based on investment activity. The System was also restructuring its investment portfolio to meet new target allocations. The decrease from FY08 to FY09 is primarily attributable to lower investment sales receivables which were normal fluctuations based on investment activity.

The System's investments represent the main component (90%) of total assets. These investments include holdings of stock, government-sponsored enterprises, bonds, mortgages, real estate, timber, securities lending collateral, limited partnerships, and other fixed income investments. The increase in fair value of investments as of June 30, 2010 is due to the more favorable market conditions experienced during FY10. The FY10 investment return was 12.91%. Market conditions in FY09 reflected a very unfavorable climate, as shown by the decrease from the fair value amount of June 30, 2008 to that of June 30, 2009. The FY09 investment return was -24.7%. Detailed information regarding MPERS' investment portfolio is included in the *Investment Section* of this report.

The increase in capital assets for FY10 can be attributed to the completion of the initial phase of the technology project MPERS has in progress. Costs associated with the project have been capitalized. All three modules of phase I of the project have been fully implemented and are now depreciable. The increase in capital assets from FY08 to FY09 is also due to the technology project.

The largest component of liabilities is securities lending collateral. This represents the amount owed for collateral to be returned as the result of securities lent. The decrease in securities lending collateral from FY09 to FY10 is primarily due to a reduction in the lendable securities as MPERS increased its exposure to

alternative investments. The exposure to alternative investments also increased from FY08 to FY09, which is reflected in the decrease in securities lending collateral for that same time period. The corresponding securities lending collateral asset is valued at lower amounts at June 30, 2010 and 2009 due to the market value of the securities on loan being less than the par value. This is a residual effect of the liquidity crisis that was one aspect of the overall market downturn in FY09.

The large increase in accounts payable for FY10 is primarily attributable to larger investment purchases payables. Some fluctuations in this area are normal, based on investment activity. The System was also restructuring its investment portfolio to meet new target allocations. The increase from FY08 to FY09 is due to the normal fluctuations based on investment activity.

The increase in long-term debt/payable is due to the completion and capitalization of assets for the initial phase of the technology project. The entire amount of phase 1 of the project has been capitalized, but remaining payments for the project will be made over the next three years. The amount shown at June 30, 2010 represents the payment amounts for FY12 and FY13.

The OPEB obligation of $276,548 at June 30, 2010, $182,305 at June 30, 2009, and $94,440 at June 30, 2008 represents a liability recorded pursuant to GASB Statement No. 45, which was implemented in FY08. This liability reflects the system's provision of postemployment health care benefits through its participation in the MoDOT and MSHP Medical and Life Insurance Plan. As allowed by the GASB, this reporting requirement is being implemented prospectively, as prior years' data is not available. This plan is an internal service fund of MoDOT; therefore, assets have not been set aside. With this, the increases from FY09 to FY10 and from FY08 to FY09 are expected.

The System's combined net assets were $1.313 billion at June 30, 2010, a $92 million increase from the $1.221 billion at June 30, 2009. This increase is an offset to the decrease of the previous year, when net assets decreased $498 million from the June 30, 2008 amount of $1.719 billion to the June 30, 2009 amount of $1.221 billion.

Summarized Comparative Statements of Changes in Plan Net Assets

	Year Ended June 30, 2010	**Year Ended June 30, 2009**	**Year Ended June 30, 2008**	**% Change 2010/2009**	**% Change 2009/2008**
Contributions	$124,476,706	$123,043,301	$124,527,678	1%	-1%
Net Investment Income (Loss)	166,307,054	(426,265,311)	(42,915,886)	-139%	893%
Other Income	33,145	33,571	31,546	-1%	6%
Net Additions (Loss)	$290,816,905	($303,188,439)	$81,643,338	-196%	-471%
Benefits	$196,721,274	$192,013,250	$185,801,362	2%	3%
Administrative Expenses	2,512,181	2,339,501	2,371,215	7%	-1%
Total Deductions	$199,233,455	$194,352,751	$188,172,577	3%	3%
Change in Net Assets	$91,583,450	($497,541,190)	($106,529,239)	-118%	367%
Net Assets-Beginning	1,221,133,860	1,718,675,050	1,825,204,289	-29%	-6%
Net Assets-Ending	**$1,312,717,310**	**$1,221,133,860**	**$1,718,675,050**	**7%**	**-29%**

The main component of the changes in contributions to MPERS is employer contributions. For FY10, the contribution rate for the non-uniformed Highway Patrol and MoDOT increased by .68% from the FY09 rate, therefore increasing the FY10 amount of employer contributions for that group from the FY09 amount. For FY09, the contribution rate for the Uniformed Highway Patrol decreased by 2.39% from the

FY08 rate, therefore decreasing the FY09 amount of employer contributions for that group from the FY08 amount.

Net investment income (loss), a primary component of plan additions, resulted in income of $166 million for FY10. This income is an offset to the FY09 loss of $426 million. The income represents a 12.91% return for the fiscal year ended June 30, 2010 which trailed the policy benchmark, but was slightly above the median in the peer universe comparison. In comparison, the FY09 investment return was a –24.7%, which trailed the rate of return of both the policy benchmark and peer groups. Annual fluctuations within the broad investment markets are outside of the control of the System and are expected to fluctuate from year to year. The Board of Trustees has approved a diversified asset allocation that, over time, is expected to realize the assumed actuarial rate of investment return of 8.25%. Additional information regarding investments can be found in the *Investment Section* of this report.

Benefits increased primarily due to changes in benefit rolls for all of the years shown. Detailed schedules of changes can be found in the Actuarial Section of this report.

CURRENTLY KNOWN FACTS AND RECENT EVENTS

Based on the June 30, 2009 actuarial valuation, the Board of Trustees approved a change in the required state contribution, effective July 1, 2010. The rate applied to non-uniformed payroll (MoDOT, civilian patrol, and MPERS) will increase from 31.40% to 39.46%. The rate applied to uniformed patrol payroll will increase from 39.95% to 49.53%. This increase is a reflection of the unfavorable investment returns in FY09 and FY08.

Based on the June 30, 2010 actuarial valuation, the Board of Trustees approved an increase in the required state contribution, effective July 1, 2011. The rate applied to non-uniformed payroll (MoDOT, civilian patrol, and MPERS) will increase from 39.46% to 45.45%. The rate applied to uniformed patrol payroll will increase from 49.53% to 58.63%. This increase is a residual effect of the unfavorable investment returns in FY09 and FY08.

CONTACTING THE RETIREMENT SYSTEM'S MANAGEMENT

This financial report is designed to provide a general overview of the System's finances. Questions about this report or requests for additional financial information should be sent to:

MoDOT and Patrol Employees' Retirement System
PO Box 1930
Jefferson City, MO 65102-1930

MISSOURI DEPARTMENT OF TRANSPORTATION AND HIGHWAY PATROL EMPLOYEES' RETIREMENT SYSTEM

STATEMENTS OF PLAN NET ASSETS

As of June 30, 2010 and 2009

	2010	2009
ASSETS:		
Cash	$ 210,007	$ (37,805)
Receivables		
Contributions	4,966,134	5,121,789
Accrued Interest and Income	3,264,452	2,255,682
Investment Sales	82,216,889	2,576,661
Other	17,680	24,155
Total Receivables	90,465,155	9,978,287
Investments, at Fair Value		
Stocks and Rights/Warrants	$ 418,603,323	$ 424,420,149
Government Obligations	40,164,929	28,679,154
Corporate Bonds	28,512,411	28,950,524
Real Estate	106,116,740	117,777,908
Mortgages and Asset-Backed Securities	103,112,077	81,703,695
Absolute Return	162,936,098	198,823,009
Tactical Fixed Income	75,793,208	62,165,864
Short-Term Investments	119,818,077	88,936,234
Venture Capital & Partnerships	244,309,475	187,740,802
Total Investments	1,299,366,338	1,219,197,339
Invested Securities Lending Collateral	$ 44,655,544	$ 53,502,879
Prepaid Expenses	5,155	8,535
Capital Assets		
Land	84,000	84,000
Building	581,619	581,619
Furniture, Equipment and Software	3,053,494	1,318,357
Accumulated Depreciation	(442,587)	(324,729)
Net Capital Assets	3,276,526	1,659,247
TOTAL ASSETS	**$ 1,437,978,725**	**$ 1,284,308,482**
LIABILITIES:		
Long-Term Payable	$ 506,400	$ -
Short-Term Payable	393,300	-
Accounts Payable	2,061,181	1,102,578
OPEB Obligation	276,548	182,305
Security Lending Collateral	45,986,723	54,692,943
Investment Purchases	76,037,263	7,196,796
TOTAL LIABILITIES	**$ 125,261,415**	**$ 63,174,622**
NET ASSETS HELD IN TRUST FOR PENSION BENEFITS	**$ 1,312,717,310**	**$ 1,221,133,860**

See accompanying Notes to the Financial Statements.

MISSOURI DEPARTMENT OF TRANSPORTATION AND HIGHWAY PATROL EMPLOYEES' RETIREMENT SYSTEM
STATEMENTS OF CHANGES IN PLAN NET ASSETS
For the Years Ended June 30, 2010 and 2009

	2010	2009
ADDITIONS:		
Contributions-Employer	$ 124,052,534	$ 122,599,301
Contributions-Other	424,172	444,000
Total Contributions	124,476,706	123,043,301
Investment Income from Investing Activities		
Net Appreciation (Depreciation) in Fair Value of Investments	$ 163,585,646	$ (427,918,465)
Interest and Dividends	20,810,730	20,639,463
Less: Investment Expenses	(18,067,443)	(19,379,111)
Net Investment Income (Loss)	166,328,933	(426,658,113)
Income from Securities Lending Activities		
Security Lending Gross Income	$ 169,460	$ 701,752
Less: Securities Lending Expenses	(191,339)	(308,950)
Net Income (Loss) from Securities Lending Activities	(21,879)	392,802
Other Income	$ 33,145	$ 33,571
NET ADDITIONS (LOSS)	**$ 290,816,905**	**$ (303,188,439)**
DEDUCTIONS:		
Monthly Benefits	$ 196,721,274	$ 192,013,250
Administrative Expenses	2,512,181	2,339,501
TOTAL DEDUCTIONS	**$ 199,233,455**	**$ 194,352,751**
NET INCREASE (DECREASE)	$ 91,583,450	$ (497,541,190)
NET ASSETS HELD IN TRUST FOR PENSION BENEFITS		
Beginning of Year	**1,221,133,860**	**1,718,675,050**
End of Year	**$ 1,312,717,310**	**$ 1,221,133,860**

See accompanying Notes to the Financial Statements.

MISSOURI DEPARTMENT OF TRANSPORTATION AND HIGHWAY PATROL EMPLOYEES' RETIREMENT SYSTEM

NOTES TO THE FINANCIAL STATEMENTS
For the Years Ended June 30, 2010 and 2009

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

As established under Section 104.020 of the Revised Statutes of Missouri (RSMo), the Missouri Department of Transportation and Highway Patrol Employees' Retirement System (MPERS) is a body corporate and an instrumentality of the State of Missouri (State). Due to the nature of MPERS' reliance on funding from the Missouri Department of Transportation (MoDOT) and the Missouri State Highway Patrol (MSHP) and control of the overall plan document by the legislative and executive branches of state government, MPERS is considered a part of the State of Missouri financial reporting entity and is included in the State's financial reports as a component unit shown as a pension trust fund.

Note 1 (a) - Basis of Accounting

The financial statements were prepared using the accrual basis of accounting. Contributions are due to MPERS when employee services have been performed and paid. Contributions are recognized as revenues when due, pursuant to statutory requirements. Benefits are recognized when due and payable and expenses are recorded when the corresponding obligations are incurred. Dividend income is recognized when dividends are declared. Interest income is recognized when earned.

Note 1 (b) - Method Used to Value Investments

Investments are reported at fair value on a trade date basis. Bonds and stocks traded on a national or international exchange are valued at the reported sales price at current exchange rates. Mortgages are valued on the basis of future principal and interest payments, and are discounted at prevailing interest rates for similar instruments. The fair value of real estate and timber investments are based on net asset value estimates provided by the general partners' administrators or portfolio managers, which are compared to independent appraisals. Investments that do not have an established market are reported at estimated fair value. The fair value of the absolute return, venture capital and partnership portfolios are based on valuations of the underlying companies as reported by the general partner or portfolio manager.

Note 1 (c) - Capital Assets

MPERS capitalizes assets with an expected useful life greater than one year and a cost greater than $1,000. Capital assets are depreciated on the straight-line method over the estimated useful lives of the related assets. The estimated useful lives are as follows:

Furniture, Equipment and Software	5 – 10 years
Building and Improvements	30 years

Note 1 (d) - Use of Estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

NOTE 2 – PLAN DESCRIPTIONS AND CONTRIBUTION INFORMATION

MPERS is a body corporate and an instrumentality of the state as a multiple-employer, public employee retirement system with one plan that has two benefit structures known as the Closed Plan and the Year 2000 Plan (see Note 13 for revisions to the plan subsequent to June 30, 2010). The plan provides retirement, survivor, and disability benefits for employees of MoDOT, MSHP, and MPERS' staff. The plan is administered in accordance with the requirements of a cost sharing, multiple-employer, public employee retirement plan under the Revised Statutes of Missouri. In MPERS are vested the powers and duties specified in sections 104.010 to 104.312, 104.601 to 104.805, and 104.1003 to 104.1093, RSMo., and such other powers as may be necessary or proper to enable it, its officers, employees, and agents to carry out fully and effectively all the purposes outlined pursuant to these sections. Responsibility for the operation and administration of the System is vested in the Board of Trustees. Detailed information regarding contributions can be found in Note 5.

Generally, all covered employees hired before July 1, 2000 are eligible for membership in the Closed Plan and all covered employees hired on or after July 1, 2000 are eligible for membership in the Year 2000 Plan.

Membership in the Closed and Year 2000 Plan as of June 30

	2010		2010	2009
	Closed	**Year 2000**	**Total**	**Total**
Retirees, Beneficiaries, and Disabilities Currently Receiving Benefits	5,064	2,546	7,610	7,480
Terminated Employees Entitled to But Not Yet Receiving Benefits	1,588	211	1,799	1,737
Active Employees				
Vested	4,676	1,859	6,535	7,335
Non-Vested	0	1,885	1,885	1,478
Total Membership	**11,328**	**6,501**	**17,829**	**18,030**

Closed Plan Description

Employees covered by the Closed Plan are fully vested for benefits upon receiving five years of creditable service. Under the Closed Plan, MoDOT and civilian employees may retire with full benefits upon the earliest of attaining:

- Age 65 with 4 or more years of creditable service (active);
- Age 65 with 5 or more years of creditable service (terminated & vested);
- Age 60 with 15 or more years of creditable service (active or terminated & vested); or
- "Rule of 80" – at least age 48 with sum of member's age and service equaling 80 or more (active or terminated & vested).

The following provisions apply for uniformed patrol members of the Closed Plan:

- Age 55 with 4 or more years of creditable service (active);
- Age 55 with 5 or more years of creditable service (terminated & vested);
- "Rule of 80" – at least age 48 with sum of member's age and service equaling 80 or more (active or terminated & vested); or
- Mandatory retirement at age 60 (active).

All non-uniformed members may retire early, with reduced benefits, at age 55 with at least 10 years of creditable service.

The base benefit in the Closed Plan is equal to 1.6% multiplied by the final average pay multiplied by years of creditable service. For members of the uniformed patrol, the base benefit is calculated by applying the same formula, then multiplying the product by 1.333333.

Retired uniformed members will receive an additional benefit of $90 per month, plus cost-of-living adjustments (COLAs), until attainment of age 65. This payment, however, is reduced by any amount earned during gainful employment. This benefit is not available to uniformed members hired after January 1, 1995.

For members employed prior to August 28, 1997, COLAs are provided annually based on 80% of the change in the consumer price index for all urban consumers for the United States (CPI-U). The minimum rate is 4% and the maximum rate is 5%, until the cumulative amount of COLAs equals 65% of the original benefit. Thereafter, the 4% minimum rate is eliminated and the annual COLA rate will be equal to 80% of the increase in the CPI-U (annual maximum of 5%). For members employed on or after August 28, 1997, COLAs are provided annually based on 80% of the increase in the CPI-U, up to a maximum rate of 5%.

The BackDROP is a payment option that is available to eligible members upon retirement. This option provides for a benefit to be calculated as if the member elected to retire at a previous date. If the BackDROP is elected, the monthly benefit payable on the actual retirement date is based on the benefit that would have been received by the member had he/she left employment and retired on the BackDROP date. In addition, the member will receive a lump sum payment equal to 90% of the life income annuity amount the member would have received during the BackDROP period. This lump sum amount includes any COLAs and other benefit increases; also, credit will be received for the unused sick leave balance as of the date of retirement.

The life income annuity payment option (which contains no provision for survivorship) and the life income with 60 or 120 month guaranteed payment options are available to all members. Joint and 50% or 100% survivor options are available if married at the time of retirement. In the Closed Plan, the reduction for the joint & 100% survivor option is based on the difference between the age of the member and the survivor. There is no reduction for the joint and 50% survivor option.

If a reduced joint and survivor option is chosen at the time of retirement and the spouse precedes the member in death, the benefit will revert back (pop-up) to a normal annuity.

Members may name a new spouse as beneficiary if:

- They were single at retirement and since married;
- They elected a spouse option at the time of retirement, the spouse preceded the member in death, and then a remarriage occurred.

The member has one year from the date of marriage to re-elect and name a new spouse.

All members who retire from active employment or long-term disability, or begin receiving normal or work-related disability benefits, on or after September 28, 1985, are provided a $5,000 death benefit payable to designated beneficiaries.

<u>Year 2000 Plan Description</u>

Employees covered by the Year 2000 Plan are fully vested for benefits upon earning five years of creditable service. Under the Year 2000 Plan, MoDOT and civilian employees may retire with full benefits upon the earliest of attaining:

- Age 62 and with 5 or more years of creditable service (active or terminated & vested);

- "Rule of 80" – at least age 48 with sum of member's age and service equaling 80 or more (active or terminated & vested).

The following provisions apply for uniformed patrol members of the Year 2000 Plan:

- "Rule of 80" – at least age 48 with sum of member's age and service equaling 80 or more (active or terminated & vested);
- Mandatory retirement at age 60 with 5 or more years of creditable service (active only).

All members may retire early with reduced benefits at age 57 with at least 5 years of creditable service.

The base benefit in the Year 2000 Plan is equal to 1.7% multiplied by the final average pay multiplied by years of creditable service. Members retiring under the Rule of 80, and uniform patrol members retiring at the mandatory retirement age (currently 60) with five years of creditable service, receive an additional temporary benefit until age 62. The temporary benefit is equivalent to 0.8% multiplied by final average pay multiplied by years of creditable service.

COLAs are provided annually based on 80% of the change in the CPI-U, up to a maximum rate of 5%.

The BackDROP is a payment option that may be available to members upon retirement. This option provides for a monthly benefit to be calculated as if the member elected to retire at a previous date. If the BackDROP is elected, the monthly benefit payable on the actual retirement date is based on the benefit that would have been received by the member had he/she left employment and retired on the BackDROP date. In addition, the member will receive a lump sum payment equal to 90% of the life income annuity amount the member would have received during the BackDROP period. This lump sum amount includes any temporary benefits, COLAs and other benefit increases; also, credit will be received for the unused sick leave balance as of the date of retirement.

The life income annuity payment option (with no provision for survivorship) and the life income with 120 or 180 months guaranteed payment options are available to all members. Joint and 50% or 100% survivorship options are available if married at the time of retirement. The reduction for the joint and 50% or 100% survivor options is based on the member's age at retirement, as well as the age difference between the member and the survivor.

If a reduced joint and survivor option is chosen at the time of retirement and the spouse precedes the member in death, the benefit will revert back (pop-up) to a normal annuity.

Members may name a new spouse for survivor benefits if:

- They were single at retirement and since married;
- They elected a spouse option at the time of retirement, the spouse preceded the member in death, and then a remarriage occurred.

The member has one year from the date of marriage to re-elect the payment option and name a new spouse.

All members who retire from active employment or long-term disability, or begin receiving work-related disability benefits, on or after July 1, 2000, are provided a $5,000 death benefit payable to designated beneficiaries.

Contributions

Contributions are determined through annual actuarial valuations. Administrative expenses are financed through contributions from MoDOT, MSHP and MPERS, and investment earnings.

MoDOT, MSHP and MPERS are required to make all contributions to the plan. Prior to August 13, 1976, contributions by members were required. Accumulated employee contributions made prior to that time, plus interest, were refunded to applicable members. Maximum contribution rates were eliminated August 13, 1976.

Schedule of Funded Status and Funding Progress

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) Entry Age (b)	Unfunded AAL (UAAL) (b-a)	Percent Funded (a/b)	Annual Covered Payroll (c)	UAAL Percentage of Covered Payroll ((b-a)/c)
6/30/2010	$1,375,844,573	$3,258,866,925	$1,883,022,352	42.22%	$378,063,006	498.07%

The schedules of funding progress, presented as required supplementary information (RSI) following the Notes to the Financial Statements, present multiyear trend information about whether the actuarial values of plan assets are increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Additional Information as of the June 30, 2010 Actuarial Valuation follows:

Valuation Date	6/30/2010
Actuarial Cost Method	Entry Age
Amortization Method	Closed, Level Percent Closed
Remaining Amortization Period	22 years*
Asset Valuation Method	3-year Smoothed Market
Actuarial Assumptions:	
Investment Rate of Return	8.25%
Projected Salary Increases	3.75% to 12.25%
COLAs	2.6% Compound
Price Inflation	3.25%

*single equivalent period

NOTE 3 – DEPOSITS AND INVESTMENTS

The Board of Trustees has established policies and procedures by which funds are invested by bank custodians and investment managers. Section 104.150, RSMo, provides the authority for the board to invest MPERS funds.

Note 3 (a) - Deposit and Investment Risk Policies

Concentration of Credit Risk

Concentration of credit risk is the risk of loss attributed to the magnitude of the System's investment in a single issuer. Unless authorized under a separate Investment Management Agreement, it is the policy of the System to limit each equity manager to investing a maximum of 5% of the market value of their portfolio in any single company and to limit fixed income managers to investing 3% of their portfolio into obligations of a single corporation. Fixed income obligations of the U.S. Government or U.S. Government agencies may be held in any amounts.

Investment Custodial Credit Risk

Custodial credit risk is an investment risk in that, in the event of the failure of the counterparty to a transaction, the System will not be able to recover the value of its investment or the collateral securities that are in the possession of an outside party. Investment securities are exposed to custodial credit risk if the securities are uninsured, are not registered in the name of the System, and are held by either: a) the counterparty or b) the counterparty's trust department or agent but not in the System's name. It is the policy of the System to require that all investments be clearly marked as to ownership and, to the extent possible, shall be registered in the name of the System.

Cash Deposit Custodial Credit Risk

Cash deposit custodial credit risk is the risk that, in the event of the failure of depository financial institution, the System will not be able to recover deposits or will not be able to recover collateral securities that are in the possession of an outside party. Missouri state law requires that all public funds must be collateralized with acceptable securities having market values of at least 100% of the amount of funds on deposit (less any amount covered by FDIC insurance).

Market Risk

Market risk is the risk that the fair value of a investment will be adversely impacted due to a change in value of the underlying market. The three primary market risks prevalent in the System's investment portfolio are equity prices, interest rates, and foreign currencies. Equity risk is the risk that stock prices fall and/or the volatility in the equity market increases. Interest rate risk is the risk that fixed income securities (or any investment primarily valued on a yield basis) will drop in value due to an increase in interest rates. Currency risk is the risk that changes to foreign exchange rates will adversely impact the fair value of non-U.S. Dollar denominated assets. The System protects the portfolio against market risks by adopting a diversified asset allocation that limits the amount of exposure to each underlying market risk. Market risks are also controlled by monitoring the types, amounts, and degree of risk that each investment manager takes for their specific mandate.

Investment Credit Risk

Investment credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. Unless authorized under a separate Investment Management Agreement, it is the policy of the System to limit fixed income managers to purchasing securities that possess a minimum credit rating of "Baa" by Moody's and "BBB" by Standard & Poor's. Issues subsequently downgraded below these ratings must be brought to the attention of the Chief Investment Officer. Where counterparty risk is present, the System's investment managers seek to control credit risk through counterparty credit evaluations and approvals, counterparty credit limits and exposure monitoring procedures.

<u>Note 3 (b) - Cash Deposits</u>

Cash balances include short-term securities held by the custodial bank to meet future obligations and operating balances held by the depository bank. As of June 30, 2010 and 2009, MPERS had carrying amount of deposits of ($1,914,861) and ($1,010,573), respectively, and a bank balance of $16 and $195, respectively. The FDIC covered the bank balances. To maximize investment income, cash is invested in overnight repurchase agreements, thus causing the negative cash amounts disclosed above. The balances in these repurchase agreements for 2010 and 2009 were $2,124,868 and $972,768 respectively. As of June 30, 2010 and 2009, no investments were held as repurchase agreements that were uninsured or unregistered, with securities held by the counterparty or by its trust department or agent but not in MPERS' name.

Note 3 (c) – Concentrations

No investments in any one organization (other than those issued or sponsored by the U.S. government and those in pooled investments) represent 5% of plan net assets.

Note 3 (d) – Investments

Summary of Investments by Type at June 30

	2010		2009	
	Carrying Amount	**Fair Value**	**Carrying Amount**	**Fair Value**
Government Obligations	$36,620,086	$40,164,929	$28,430,454	$28,679,154
Corporate Bonds	27,265,315	28,512,411	29,095,987	28,950,524
Stock and Rights/Warrants	453,260,769	418,603,323	547,597,353	424,420,149
Real Estate	127,889,920	106,116,740	125,386,480	117,777,908
Mortgages & Asset-Backed Securities	124,655,750	103,112,077	119,653,947	81,703,695
Absolute Return	142,890,806	162,936,098	200,635,359	198,823,009
Tactical Fixed Income	55,548,331	75,793,208	55,550,421	62,165,864
Venture Capital & Partnerships	287,232,156	244,309,475	236,917,341	187,740,802
Short-Term Investments	122,117,934	121,942,945	90,683,894	89,909,002
Securities Lending Collateral	44,655,544	44,655,544	53,502,879	53,502,879
Total Investments	**$1,422,136,611**	$1,346,146,750	**$1,487,454,115**	$1,273,672,986
Reconciliation to Statement of Plan Net Assets:				
Less: Repurchase Agreements		($2,124,868)		($972,768)
Less: Securities Lending Collateral		(44,655,544)		(53,502,879)
Investments per Statement of Plan Net Assets		**$1,299,366,338**		**$1,219,197,339**

Note 3 (e) – Investment Interest Rate Risk

The following table summarizes the maturities of government obligations, corporate bonds, convertible corporate bonds, mortgages, asset-backed securities, and tactical fixed income which are exposed to interest rate risk.

Summary of Weighted Average Maturities

Investment Type	Fair Value	Investment Maturities (in years) as of 6/30/10			
		Less than 1	1 - 5	6 - 10	More than 10
Asset-Backed Securities	$3,273,778	$0	$967,261	$996,962	$1,309,555
Commercial Mortgage-Backed Securities	66,924,822	0	0	2,178,299	64,746,523
Corporate Bonds	28,512,411	0	10,003,293	11,246,232	7,262,886
Corporate Convertible Bonds	319,837	0	0	0	319,837
Government Agencies	762,967	0	762,967	0	0
Government Bonds	32,931,490	0	1,792,051	2,836,023	28,303,416
Government Mortgage' Backed Securities	32,913,477	0	0	1,263,251	31,650,226
Municipal/Provincial Bonds	6,470,472	0	0	1,048,040	5,422,432
Total	$172,109,254	**$0**	**$13,525,572**	**$19,568,807**	**$139,014,875**
Pooled Investments	75,793,208				
Grand Total	**$247,902,462**				

Note 3 (f) – Investment Credit Ratings

The following table summarizes the credit ratings of the government obligations, corporate bonds, mortgages and asset-backed securities, and tactical fixed income on the Statement of Plan Net Assets.

Summary of Credit Ratings

Investment Type	Quality Rating	6/30/2010 Fair Value	6/30/2009 Fair Value
Asset-Backed Securities	A	$734,935	$283,412
Asset-Backed Securities	AA	95,090	0
Asset-Backed Securities	AAA	555,706	836,577
Asset-Backed Securities	BB-	232,310	0
Asset-Backed Securities	BBB+	313,625	0
Asset-Backed Securities	CC	341,600	0
Asset-Backed Securities	CCC	213,603	0
Asset-Backed Securities	not rated	786,909	423,498
Commercial Mortgage-Backed Securities	A-	4,380,711	439,729
Commercial Mortgage-Backed Securities	A	2,528,597	295,305
Commercial Mortgage-Backed Securities	A+	1,042,386	958,911
Commercial Mortgage-Backed Securities	AA-	1,610,822	589,581
Commercial Mortgage-Backed Securities	AA	641,893	5,283,682
Commercial Mortgage-Backed Securities	AA+	0	1,991,751
Commercial Mortgage-Backed Securities	AAA	9,525,406	30,232,450
Commercial Mortgage-Backed Securities	B	689,388	0
Commercial Mortgage-Backed Securities	B+	9,751,595	0
Commercial Mortgage-Backed Securities	BB-	2,509,580	0
Commercial Mortgage-Backed Securities	BB	7,005,644	894,322
Commercial Mortgage-Backed Securities	BB+	2,271,878	0
Commercial Mortgage-Backed Securities	BBB-	0	482,398
Commercial Mortgage-Backed Securities	BBB	6,459,626	1,570,755
Commercial Mortgage-Backed Securities	BBB+	0	431,688
Commercial Mortgage-Backed Securities	CCC	3,593,610	453,955
Commercial Mortgage-Backed Securities	CCC+	131,793	0
Commercial Mortgage-Backed Securities	not rated	14,781,893	11,096,415
Corporate Bonds	A-	2,558,956	3,182,545
Corporate Bonds	A	2,891,173	5,788,634
Corporate Bonds	A+	1,240,072	1,294,144
Corporate Bonds	AA-	1,697,758	1,032,463
Corporate Bonds	AA	797,178	1,058,744
Corporate Bonds	AA+	308,187	652,699
Corporate Bonds	AAA	956,040	1,099,603
Corporate Bonds	BB+	903,607	616,617
Corporate Bonds	BBB-	7,496,944	3,504,432
Corporate Bonds	BBB	3,975,938	7,534,372
Corporate Bonds	BBB+	3,508,299	1,286,503
Corporate Bonds	not rated	2,178,259	1,899,768
Corporate Convertible Bonds	A	0	489,850
Corporate Convertible Bonds	A+	319,837	327,750
Corporate Convertible Bonds	AA-	0	388,875
Corporate Convertible Bonds	BBB+	0	362,500
Corporate Convertible Bonds	not rated	0	191,255
Government Agencies	A+	0	163,769
Government Agencies	AA	297,231	0
Government Agencies	AAA	465,736	0
Government Bonds	AAA	26,278,817	20,299,125
Government Bonds	Treasury	6,652,673	3,991,962
Government Mortgage-Backed Securities	Agency	32,913,477	25,070,315
Government Mortgage-Backed Securities	not rated	0	368,951
Municipal/Provincial Bonds	A	1,048,040	0
Municipal/Provincial Bonds	A+	514,687	0
Municipal/Provincial Bonds	AA-	857,080	508,484
Municipal/Provincial Bonds	AA	159,387	2,242,881
Municipal/Provincial Bonds	AA+	0	206,735
Municipal/Provincial Bonds	AAA	3,891,278	1,266,197
Pooled Investments	not rated	75,793,208	62,165,864
Total		**$247,902,462**	**$203,259,466**

Note 3 (g) – Investment Foreign Currency Risk

Exposure to Foreign Currency Risk as of June 30

Foreign Currency	Cash and Equivalents	Equities	Fixed Income	Real Estate	6/30/10 Total	6/30/09 Total
Australian Dollar	$22,870	$2,680,296	$0	$0	$2,703,166	$1,373,296
British Pound Sterling	212,765	2,548,249	0	0	2,761,014	2,503,550
Canadian Dollar	160,038	1,500,157	0	0	1,660,195	687,062
Euro	1,790,365	1,508,142	0	6,444,043	9,742,550	6,241,077
Hong Kong Dollar	100,225	1,492,540	0	0	1,592,765	2,003,628
Japanese Yen	14,511	918,378	0	0	932,889	683,981
Singapore Dollar	318,989	2,116,361	0	0	2,435,350	1,885,200
Swedish Krona	194,742	0	0	0	194,742	353,272
Total Exposure Risk	**$2,814,505**	**$12,764,123**	**$0**	**$6,444,043**	**$22,022,671**	**$15,731,066**

Note 3 (h) – Securities Lending

In accordance with the Board of Trustees' investment policy, MPERS participates in a securities lending program. The Northern Trust Company administers the program. There are no restrictions on the amount of securities that may be lent.

Securities that may be loaned include U.S. government and agency securities, corporate equity, and fixed income securities. Collateral may include cash, U.S. government securities and irrevocable letters of credit. U.S. securities are loaned in exchange for collateral valued at 102% of the market value of the securities, plus any accrued interest. Non-U.S. securities are loaned in exchange for collateral valued at 105% of the market value of the securities, plus any accrued interest. On June 30, 2010 and 2009, MPERS had no credit risk exposure to borrowers, since the amount of collateral exceeded the amount of the loans.

Non-cash collateral cannot be pledged or sold unless the borrower defaults. The average term of the System's loans was approximately 88 days and 85 days, as of June 30, 2010 and June 30, 2009, respectively. Cash open collateral is invested in a short-term investment pool, which had an interest sensitivity of 25 days and 15 days, as of June 30, 2010 and June 30, 2009, respectively. Cash collateral may also be invested separately in "term loans", in which case the investments match the loan term. These loans can be terminated on demand by either lender or borrower. There were no known violations of legal or contractual provisions, or borrower or lending agent default losses. There were no dividends or coupon payments owing on the securities lent. Securities lending earnings are credited on approximately the fifteenth day of the following month.

Indemnification deals with a situation in which a client's securities would not be returned due to the insolvency of a borrower and Northern Trust would fail to live up to its contractual responsibilities relating to the lending of those securities. Northern Trust's responsibilities include performing appropriate borrower and collateral investment credit analyses and demanding adequate types and levels of collateral.

The collateral held (including both cash collateral recognized in the Statement of Plan Net Assets and non-cash collateral) was as follows at June 30:

Collateral Held

Investment Type	2010	2009
Equities	$34,062,205	$26,957,760
Government & government sponsored securities	7,657,793	24,810,687
Corporate bonds	4,266,725	3,243,667
	$45,986,723	**$55,012,114**

Note 3 (i) – Derivatives

A derivative financial instrument is an investment whose value depends on the values of one or more underlying assets, financial indexes, or commodity prices. These investments include futures contracts, options contracts, and forward foreign currency exchange. Derivative financial instruments involve credit risk and market risk, as described in Note 3 (a), in varying levels. The notional value related to these derivative instruments are generally not recorded on the financial statements; however, the change in market value of these instruments is incorporated in performance. The notional/market value of $131,922,512 and $137,050,350 for the various contracts in MPERS' portfolio as of June 30, 2010 and 2009 is recorded in investments on the Statement of Plan Net Assets. The change in fair value of $22,369,693and ($3,383,936) for the years ended June 30, 2010 and 2009 is recorded in investment income on the Statement of Changes in Plan Net Assets.

Investment Derivatives as of June 30, 2010

Type	Notional/ Market Value	Cost	Unrealized Gain (Loss)
Futures	$132,020,760	$110,119,386	$21,901,374
Options	(90,450)	(566,567)	$476,117
Forwards	(7,798)	0	($7,798)
	$131,922,512	**$109,552,819**	**$22,369,693**

As of June 30, 2010, there is no counterpary risk associated with MPERS' derivatives exposures since all positions are traded on a regulated exchange.

NOTE 4 – RECEIVABLES

Receivables at June 30 consisted of the following:

Receivables

Type	2010	2009
Contributions-MoDOT	$3,308,463	$3,470,483
Contributions-MSHP Non-Uniformed	559,379	539,703
Contributions-MSHP Uniformed	1,086,610	1,100,364
Contributions-Retirement System	11,682	11,239
Commission Recapture	1,293	823
Securities Lending	16,202	22,887
Amounts Due From Members	185	445
Investment Interest & Income	3,264,452	2,255,682
Investment Sales	82,216,889	2,576,661
	$90,465,155	**$9,978,287**

NOTE 5 – CONTRIBUTIONS

MoDOT, the Highway Patrol, and MPERS make contributions to the System. As a non-contributory defined benefit plan, employees do not contribute to the System. MPERS permanent funding policy provides for actuarially determined employer contributions using the entry-age normal cost method on a closed group basis (consisting of normal cost and amortization of any unfunded accrued liabilities over a 30-year period, beginning July 1, 2006). (The objective is to reduce the period by one year each year.) A temporary accelerated policy has been adopted where the total contribution is based on entry-age normal cost plus a 15-year amortization period for unfunded retiree liabilities and a 30-year amortization period for other unfunded liabilities. Both amortization periods are closed periods starting July 1, 2010. This temporary accelerated policy was adopted by the MPERS' Board of Trustees on September 17, 2009 and will remain in effect until such time as the retiree liability becomes 100% funded or the permanent policy produces a higher contribution rate. Actuarially determined rates, expressed as percentages of annual covered payroll, provide for amounts sufficient to fund those benefits designated by state statute to be funded in advance. Actuarial assumptions used to compute contribution requirements are the same as those used to compute the pension benefit obligation.

Required employer contributions totaling $124,052,534 and $122,599,301 for fiscal years 2010 and 2009, respectively, represent funding of normal costs and amortization of the unfunded accrued liability. Actual contributions made were 100% of required contributions. Contribution rates as determined by the System's actuary for the years ended June 30, 2010 and 2009 are shown below. The Board established actual rates to be the same as the actuarially determined rates.

Contribution Rates

2010		2009	
MoDOT, MPERS & Civilian Patrol	**Uniformed Patrol**	**MoDOT, MPERS & Civilian Patrol**	**Uniformed Patrol**
31.40%	39.95%	30.72%	40.22%

NOTE 6 – RELATED PARTY TRANSACTIONS

MoDOT rents office space from MPERS. The contract began in June 2008 and is effective through May 2011. This amounted to other income of $33,024 and $33,024 during FY10 and FY09, respectively.

NOTE 7 – PERSONAL SERVICES AND RETIREMENT PLAN

MPERS employed 13 full-time employees on June 30, 2010 and June 30, 2009. Six former MPERS employees have retired. Full-time employees are also members of the System. For these employees, MPERS accrued 31.40% of payroll during FY10, amounting to $282,762, which was equal to the required contribution. The net obligations for FY10 and the two preceding years are shown below. These amounts are recorded as both a contribution and administrative expense. Information regarding the retirement plans can be found in Notes 2 and 5.

Net Obligations

Year Ended June 30	Annual Required Contribution		Percent Contributed	Net Obligation
	Percent	Dollars		
2008	31.01%(1)	282,498	100%	$0
2009	30.72%(1)	255,300	100%	$0
2010(2)	31.40%(1)	282,762	100%	$0

(1) The Annual Required Contribution rate is equal to the Actuarially Required Contribution rate.

(2) New assumptions adopted.

NOTE 8 – OTHER POSTEMPLOYMENT BENEFITS (OPEB)

In addition to the retirement benefits described previously, MPERS provides a portion of health care insurance through the MoDOT and MSHP Medical and Life Insurance Plan (Insurance Plan) in accordance with Missouri state statutes. For the purpose of reporting OPEB costs and obligations in accordance with Governmental Accounting Standards Board (GASB) Statement 45, the Insurance Plan is considered an agent multiple-employer defined benefit plan administered by MoDOT. Medical insurance benefits are established by the Insurance Plan's Board of Trustees and are approved by the Missouri Highways and Transportation Commission. Benefits include general inpatient and outpatient medical services; mental, nervous and substance abuse care; and prescriptions. Eligible members are employees who retired from the System with a minimum of 5 years of service and who participate in the Insurance Plan. MoDOT issues a publicly available financial report that includes financial statements and required supplementary information for the Insurance Plan. Requests for this report should be addressed to MoDOT, Controller's Division, P.O. Box 270, Jefferson City, MO 65102.

Employer and member contributions are established by the Insurance Plan's Board of Trustees and are approved by the Missouri Highways and Transportation Commission. Premiums vary by coverage categories, which include retirees, certain disabled employees, spouses, certain dependents, and survivors of deceased employees and retirees. Employer and member required contribution rates average approximately 51% and 49%, respectively. The Insurance Plan is financed on a pay-as-you-go basis and is an internal service fund of MoDOT.

MoDOT's actuarial valuations for the Insurance Plan are performed biennially. The July 1, 2009 actuarial valuation was used for the FY10 financial statements. For this period, the annual required contribution (ARC) is equal to the annual OPEB cost. MPERS contributed $31,619 and $19,930 in FY10 and FY09 (26% and 18% of the ARC) respectively, including implicit rate subsidies. MPERS' share of the net OPEB obligation was $276,548 and

$182,305 at June 30, 2010 and 2009, respectively. MPERS' share of the changes in the Insurance Plan's net OPEB obligation is shown below.

OPEB Cost and Obligation for the Year Ended June 30,

	2010	2009
Normal Cost	$56,791	$35,919
Amortization Payment	60,910	73,005
Interest on above items	5,297	-
Interest on net OPEB obligation	8,449	4,722
Adjustment to ARC	(11,031)	(5,851)
Annual OPEB cost	120,416	107,795
Contributions	(31,619)	(19,930)
Increase in net OPEB obligation	88,797	87,865
Adjustment for prior years' interest	5,446	-
Net OPEB Obligation - beginning of year	182,305	94,440
Net OPEB Obligation - end of year	$276,548	$182,305

Because the Insurance Plan is an internal service fund of MoDOT, the Insurance Plan's assets have not been set aside. Because of this, there is no actuarial value of assets, so the entire actuarial accrued liability (AAL) is unfunded. Based on an actuarial report dated July 1, 2009, MPERS' portion of the AAL is $1,036,681, which is equal to MPERS' portion of the unfunded actuarial accrued liability (UAAL).

Actuarial valuations of an ongoing plan reflect long-term perspective and involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. These calculations are subject to continual revision as actual results are compared to past expectations and new estimates are made about the future. A schedule of funding progress is presented as required supplementary information following the notes to the financial statements. As allowed by the GASB, this reporting requirement is being implemented prospectively. Data is not available for prior years. Over time, the schedule of funding progress will present trend information about whether the actuarial value of plan assets is increasing or decreasing relative to the AAL for benefits.

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employers and plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employers and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations. The actuarial methods and assumptions utilized in the valuation are shown on the following table.

Actuarial Methods and Assumptions

Actuarial cost method	projected unit credit
UAAL amortization method	level dollar amount
UAAL amortization period	30 years
UAAL amortization approach	open
Investment return (discount) rate	4.5%
Healthcare cost trend rate	8%, decreasing to 5% in 2015

NOTE 9 – CAPITAL ASSETS

Summary of Changes in Capital Assets

	6/30/2009 Balance	Additions	Deletions/ Retirements	6/30/2010 Balance
Land	$84,000	$0	$0	$84,000
Buildings	581,619	0	0	581,619
Furniture, Equipment and Software	1,318,357	1,735,137	0	3,053,494
Less: Accumulated Depreciation	(324,729)	(117,858)	0	(442,587)
Total	**$1,659,247**	**$1,617,279**	**$0**	**$3,276,526**

	6/30/2008 Balance	Additions	Deletions/ Retirements	6/30/2009 Balance
Land	$84,000	$0	$0	$84,000
Buildings	581,619	0	0	581,619
Furniture, Equipment and Software	1,145,599	202,621	(29,863)	1,318,357
Less: Accumulated Depreciation	(233,766)	(108,029)	17,066	(324,729)
Total	**$1,577,452**	**$94,592**	**($12,797)**	**$1,659,247**

NOTE 10 – OPERATING LEASES

As of June 30, 2010, MPERS is committed to four equipment and services related leases. The leases extend through May 2014. Expenditures for the years ended June 30, 2010 and 2009 amounted to $32,123 and $8,888, respectively.

Future Minimum Lease Payments

Year Ending June 30	
2011	$25,884
2012	8,604
2013	8,604
2014	6,135
Total minimum lease payments	**$49,227**

NOTE 11 – RISK MANAGEMENT

MPERS is exposed to various risks of loss related to natural disasters, asset theft or damage, errors and omissions, torts, and employee injuries.

MPERS has purchased commercial insurance related to capital asset loss and damage. Ancillary coverage provided through the property policy includes coverage for accounts receivable, loss of money and securities, employee dishonesty, and forgery and alterations. MPERS carries a $2 million umbrella liability policy. MPERS

has coverage through Missouri Highway and Transportation Commission's Self-Insurance Fund related to workers' compensation. MPERS' has also purchased an executive risk insurance package that includes directors and officers liability ($1 million aggregate coverage), employment practices liability ($1 million aggregate coverage) and fiduciary liability coverage ($5 million aggregate coverage). These coverages are inclusive of legal defense costs and each policy carries a $25,000 deductible. The State's Legal Expense Fund covers all state employees and officers, and MPERS has purchased surety bonds for the director and staff. Settlements have not exceeded coverages for each of the past three fiscal years.

NOTE 12 – COMMITMENTS

During fiscal year 2007, the System purchased a new pension administration software system. $2,889,221 of the total costs have been capitalized and $181,371 have been expensed. As of June 30, 2010, payments totaling $1,989,521 have been made on the capitalized portion, leaving $899,700 remaining to be paid. Of this remaining amount, $393,300 will be paid in FY2011, $397,500 in FY2012, and $108,900 in FY2013.

NOTE 13 – SUBSEQUENT EVENTS

A pension reform bill was passed during a special legislative session held in June and July of 2010 and was signed into law by the Governor on July 19, 2010. The bill created a new tier of benefits within the Year 2000 Plan for new employees hired for the first time on or after January 1, 2011.

Provisions of the new benefit tier include; employee contributions of 4% of monthly pay, vesting requirement of 10 years of creditable service, refund of contributions payable 90 days after termination (not eligible for refund if member is eligible for retirement), and annual interest of 4% paid on members' contributions.

Under the new benefit tier, MoDOT and civilian patrol employees may retire with full benefits upon the earliest of attaining; at least age 67 with 10 years of service, or "Rule of 90" – at least age 55 with sum of member's age and service equaling 90 or more. Early retirement eligibility requirement is at least age 62 with 10 years of service. Provisions that apply for uniformed patrol members under the new benefit tier are; at least age 55 with 10 years of service, mandatory retirement at age 60, and no eligibility for early retirement. Provisions for terminated and vested members are; at least age 67 with 10 years of service and no eligibility for early retirement. A member must retire under "Rule of 90" to be eligible for the temporary benefit, which ends at age 62.

With the creation of this new benefit tier requiring employee contributions, MPERS has begun another phase of the technology project implementing a new pension administration software system. This additional phase will add the functionality necessary to process employee contributions.

MISSOURI DEPARTMENT OF TRANSPORTATION AND HIGHWAY PATROL EMPLOYEES' RETIREMENT SYSTEM REQUIRED SUPPLEMENTARY INFORMATION

SCHEDULE OF FUNDING PROGRESS

Year Ended June 30	Actuarial Asset Value	Accrued Liability – Entry Age	Unfunded Accrued Liability (UAAL)	Funded Ratio	Actuarial Covered Payroll[1]	UAAL as a Percentage of Covered Payroll
2005[2]	$1,417,348,982	$2,627,409,025	$1,210,060,043	53.94%	$334,030,151	362.26%
2006	1,521,142,953	2,740,437,837	1,219,294,884	55.51%	341,227,890	357.33%
2007[2]	1,685,807,004	2,897,267,409	1,211,460,405	58.19%	365,012,472	326.89%
2008	1,783,902,280	3,019,633,781	1,235,731,501	59.08%	375,984,141	328.67%
2009	1,471,496,660	3,113,393,645	1,641,896,985	47.26%	379,542,506	432.60%
2010[2]	1,375,844,573	3,258,866,925	1,883,022,352	42.22%	378,063,006	498.07%

(1) Values are estimated from contribution rate and amount.

(2) New assumptions adopted.

SCHEDULES OF EMPLOYER CONTRIBUTIONS

Year Ended June 30	Uniformed Patrol			MoDOT, Civilian Patrol & MPERS		
	Annual Required Contribution		Percent Contributed	Annual Required Contribution		Percent Contributed
	Percent	Dollars		Percent	Dollars	
2005[2]	43.54%	22,187,762	100%	28.28%	80,052,383	100%
2006	44.27%	24,102,199	100%	30.49%	87,440,518	100%
2007[2]	44.28%[1]	27,802,932	100%	31.10%[1]	93,991,526	100%
2008	42.61%	29,147,429	100%	31.01%	95,380,249	100%
2009	40.22%	27,298,132	100%	30.72%	95,745,169	100%
2010[2]	39.95%	26,936,683	100%	31.40%	97,540,023	100%

(1) The ARC is the rate adopted by the Board of Trustees. This rate exceeded the actuarially calculated rate.

(2) New assumptions adopted.

NOTES TO THE SCHEDULES OF TREND INFORMATION

The information presented in the required supplementary schedules was determined as part of the actuarial valuation at the dates indicated. Additional information as of the latest actuarial valuation follows:

Valuation Date .... June 30, 2010
Actuarial Cost Method .... Entry Age Normal
Amortized Method .... Level Percent of Payroll
Remaining Amortization Period .... 22 Years (single equivalent period)
Amortization Approach .... Closed
Asset Valuation Method .... 3-Year Smoothing
Actuarial Assumptions:
- Investment Rate of Return 8.25%
- Projected Salary Increase .... 3.75% to 12.25%
- Cost-of-Living Adjustments .... 2.6% Compound
- Includes Wage Inflation at 3.75%

MISSOURI DEPARTMENT OF TRANSPORTATION AND HIGHWAY PATROL EMPLOYEES' RETIREMENT SYSTEM REQUIRED SUPPLEMENTARY INFORMATION

OTHER POSTEMPLOYMENT BENEFIT PLAN SCHEDULE OF FUNDING PROGRESS FOR MODOT AND MSHP MEDICAL AND LIFE INSURANCE PLAN

Year Ended June 30	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)
2008	$0	$1,178,303	$1,178,303	0%
2010[1]	$0	$1,036,681	$1,036,681	0%

[1]New assumptions adopted.

Actuarial valuations are performed biennially. The July 1, 2009 actuarial valuation was used for FY10 financial statements and the July 1, 2007 actuarial valuation was used for FY08 and FY09 financial statements. As allowed by the GASB, this reporting requirement is being implemented prospectively, as prior years' data is not available.

Because this plan is an internal service fund of MoDOT, assets have not been set aside. Therefore, there is no actuarial value of assets. This results in a calculated funded ratio of zero percent.

NOTES TO THE SCHEDULE OF TREND INFORMATION

The information presented in the required supplementary schedule was determined as part of the actuarial valuation at the date indicated. Additional information as of the latest actuarial valuation follows:

Valuation Date	July 1, 2009
Actuarial Cost Method	Projected Unit Credit
UAAL Amortization Method	Level Dollar Amount
UAAL Amortization Period	30 Years
UAAL Amortization Approach	Open
Investment Return (discount) Rate	4.5%
Healthcare Cost Trend Rate	8% Decreasing to 5% in 2015

MISSOURI DEPARTMENT OF TRANSPORTATION AND HIGHWAY PATROL EMPLOYEES' RETIREMENT SYSTEM
SCHEDULES OF ADMINISTRATIVE EXPENSES
FOR THE YEARS ENDED JUNE 30, 2010 AND 2009

	2010	2009
Personal Services:		
Salary Expense	$930,172	$842,992
Employee Benefit Expense	587,265	568,872
Total Personal Services	$1,517,437	$1,411,864
Professional Services:		
Actuarial Services	$111,140	$127,901
Computer Services	212,605	242,618
Audit Expense	30,815	26,300
Disability Program	13,687	20,384
Consultant Fees	122,374	104,396
Other	9,502	20,129
Total Professional Services	$500,123	$541,728
Miscellaneous:		
Depreciation	$117,859	$120,826
Meetings/Travel/Education	59,889	67,546
Equipment/Supplies	50,876	34,686
Printing/Postage	89,989	73,625
Bank Service Charge	8,021	7,189
Building Expenses	88,249	34,834
Other	79,738	47,203
Total Miscellaneous	$494,621	$385,909
Total Administrative Expenses	$2,512,181	$2,339,501

MISSOURI DEPARTMENT OF TRANSPORTATION AND HIGHWAY PATROL EMPLOYEES' RETIREMENT SYSTEM
SCHEDULES OF INVESTMENT EXPENSES
FOR THE YEARS ENDED JUNE 30, 2010 AND 2009

	2010	2009
Investment Income Expenses:		
Management and Performance Fees		
Aberdeen Asset Management	$145,998	$134,550
ABRY Partners	376,041	380,669
Acadian Asset Management	905,766	765,274
AEW	187,500	187,500
Albourne	240,000	240,000
Algert Coldiron Investments (ACI)	115,418	282,258
American Infrastructure MLP	257,625	249,209
Apollo Real Estate	283,723	278,505
AQR Capital Management	235,768	187,681
Artio (formerly Julius Baer)	607,856	601,974
Audax Group	132,197	132,012
AXA Rosenberg	0	21,269
Barclays Global Investors	349,081	459,043
Black River	393,085	540,963
Blackrock, Inc.	0	186,816
Brevan Howard	715,194	976,049
Bridgewater Associates	919,795	519,477
CBRE	91,951	63,170
Clifton	68,089	49,830
Colony Capital	100,506	77,190
Concordia	21,178	106,401
CQS Management	260,077	327,149
CarVal Investors (CVI)	443,057	335,311
Deephaven Capital Management	49,259	143,526
EIF Management	174,825	112,815
Enhanced Investment Technologies (INTECH)	283,907	258,764
GMO	118,096	774,586
Grove Street Advisors	1,615,385	2,500,000
GSO	0	50,000
ING Clarion	432,294	602,432
Luxor	265,325	233,165
Natural Gas Partners	425,207	424,717
Och-Ziff Real Estate	179,339	152,890
Ospraie	247,990	61,648
Paulson and Co.	585,328	1,852,594
Pinnacle Associates	223,399	107,914
Principal Global Investors	648,264	855,587
RMK Timberland	164,137	205,989
Rothschild Asset Management	76,189	216,200
Silchester International Investors	612,932	500,069
Stark Investments (Shepard)	159,517	255,800
Structured Portfolio Management (SPM)	1,910,068	327,658
Taconic	547,355	184,544
Urdang	261,969	268,307
Vectis	187,500	166,524
Vicis Capital	95,991	625,819
Western Asset Management Company	1,442,370	133,137
Total Management and Performance Fees	$17,556,549	$18,116,985
Investment Custodial Fee	97,212	122,541
Performance Management	87,000	85,757
General Consultant (monitoring) Fee	225,000	225,000
Other Investment Expenses	101,681	828,828
Total Investment Income Expenses	$18,067,442	$19,379,111
Securities Lending Expenses:		
Borrower Rebates	$112,145	$237,672
Bank Fees	79,194	71,278
Total Securities Lending Expenses	$191,339	$308,950

MISSOURI DEPARTMENT OF TRANSPORTATION AND HIGHWAY PATROL EMPLOYEES' RETIREMENT SYSTEM
SCHEDULES OF CONSULTANT AND PROFESSIONAL EXPENSES
FOR THE YEARS ENDED JUNE 30, 2010 AND 2009

	2010	**2009**
Actuarial Services	$111,140	$127,901
Computer Services	212,605	242,618
Audit Services	30,815	26,300
Disability Administrative Services	13,687	20,384
Legislative Consultant	33,667	35,000
Board Governance Consultant	51,634	58,000
Customer Service and Benefit Delivery	31,073	5,396
Insurance Consultant	6,000	6,000
Other	9,502	20,129
Total Consultant and Professional Expenses	$500,123	$541,728